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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

PRESIDING OFFICER'S
RULING NO. R97-1/8

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

Postal Rate and Fee Changes

Docket No. R97-1

PRESIDING OFFICER'S RULING
GRANTING IN PART POSTAL SERVICE
MOTIONS FOR RECONSIDERATION

(August 25, 1997)

Docket No. R97-1 is the first proceeding conducted since language was added to Commission rule of practice 54(a) requiring the Postal Service to provide additional information when it supported a rate request with cost projections using attribution methodologies different from those used in the previous rate decision. Order No. 1176, issued May 27, 1997.

Only a portion of the newly required information was provided with the Postal Service Request, on July 10, 1997. A representation of base year costs intended to reflect established cost attribution methodologies was filed as library reference LR-H-196. Because the Postal Service was delayed in providing test year cost projections Presiding Officer's Ruling R97-1/2 identified errors in the base year analysis and directed that corrected information be provided so as to improve the quality of the information available to interested persons. Unfortunately the subsequent Postal Service submission failed to incorporate several of the corrections identified in P.O. Ruling R97-1/2 into LR-H-196, or the test year representation, LR-H-215. As a result, ruling R97-1/7 was issued.

P.O. Ruling R97-1/7 gave notice that library references LR-H-196 and LR-H-215 did not accurately represent established cost attribution methods. It directed that a

table of relative mark-ups be completed immediately to assist interested persons to understand the impact of the cost attribution methodology changes proposed by the Postal Service, and it further directed that corrected versions of those library references should be submitted, and that the table of mark-ups should be updated to reflect corrected cost information.

On August 15, 1997, the Postal Service submitted the table of relative mark-ups as an attachment to a Motion of the United States Postal Service for Reconsideration of Parts of Presiding Officer's Ruling No. R97-1/7 (Motion).¹ The Motion requests that the Postal Service be excused from any further obligation to file additional corrected versions of cost presentations required by rule 54(a) submitted as library references LR-H-196 and LR-H-215, and the table of relative mark-ups required by P.O. Ruling R97-1/7.

In support of its request, the Postal Service points out that the new language in rule 54(a) was intended to obtain from the Postal Service a good faith effort to depict projected costs using the attribution methods used to develop the rates established in the last omnibus rate case. The Postal Service contends that it has made a good faith effort to provide cost projections using the attribution methodology established by the Commission in Docket No. R94-1. It expresses concern that it not be placed under a continuing obligation to repeatedly revise these cost projections. It notes that "Postal Service witnesses will inevitably make changes to their testimony. Revenues may change, volumes may change and costs may change. Every time there is a change in

¹ The Postal Service explained that time did not permit it to fully develop all its arguments in the Motion, and stated it would file an additional pleading asking for reconsideration of P.O. Ruling R97-1/7. That document, titled Motion of the United States Postal Service for Reconsideration of Additional Part of Presiding Officer's Ruling No. R97-1/7 (Supplement), was filed on August 20, 1997. These two pleadings are complementary and will be considered and referred to together as a single motion. An Office of the Consumer Advocate Reply to the Motion of the United States Postal Service for Reconsideration of Additional Part of Presiding Officer's Ruling No. R97-1/7, filed August 22, 1997, urges the Motion be denied.

one of these items for one category of mail, a new markup and markup index would need to be recalculated for that category of mail.” Motion at 4.

The Service argues that repeated revisions will require resources that otherwise would be used by the Postal Service to explain and defend its proposals in this case. Finally, the Postal Service contends that tables of relative mark-ups are not specifically required by rule 54(a), and it should not be required to provide them.

I will ease the Postal Service obligations to provide information set out in P.O. Ruling R97-1/7. The Postal Service complied with the initial requirement of P.O. Ruling R97-1/7 by providing a table of relative mark-ups which reflected then available cost information. That table, and the underlying cost information, should have provided effective notice to participants that the new cost attribution methods proposed by the Postal Service in this case could significantly impact the rates recommended by the Commission, and further should have provided some indication of how those proposed methods might impact on specific subclasses of mail. The quality of that notice would have been better if the Postal Service had accurately replicated established cost attribution methods. Nonetheless, I conclude that meaningful notice has been provided as a result of the new requirements of rule 54(a), and the Service's response to P.O. Ruling R97-1/7.

The Postal Service now implies that P.O. Ruling R97-1/7 would require it to repeatedly update these library references. It contends that continuously correcting these documents as it uncovers errors in its direct case would be both time consuming, and of little value to interested participants. But no specific language in that ruling gives rise to any continuing obligation to constantly update these library references. The Postal Service's references to numerous, burdensome updates seems to be little more than a “straw man argument,” as the Service itself acknowledges that the discussions leading to the amendment of rule 54(a) did not contemplate such an obligation.

Rule 54(a) required the Postal Service to submit with its Request in this case, a representation of base year and test year costs developed using the cost attribution methodologies used to develop the rates approved in the Docket No. R94-1. Had

library references LR-H-196 and LR-H-215 met this requirement, this controversy would not have arisen. Presiding Officer's Ruling R97-1/7 does not mandate repeated updating of these library references, rather it directs that these presentations meet a minimum standard of accuracy.²

To some extent, the issue is whether the presentation submitted on July 31, 1997, which failed to incorporate specific corrections described in P.O. Ruling R97-1/2, should have been found to qualify as a "good faith effort" to replicate established attribution methodology and comply with rule 54(a). When the Commission approved the amendment to rule 54(a), it recognized that changing circumstances might produce areas of uncertainty about how best to reflect the established cost attribution method. In such instances, a "good faith effort" to solve the problem would be sufficient to satisfy the rule. Initially, there was no indication that the flaws in LR-H-196 and LR-H-215 were the result of the application of good faith judgments. A conscientious effort to comply with rule 54(a) should have incorporated specific items identified in a presiding officer ruling issued the previous week. However, the Postal Service now claims that it has had difficulty applying some of the items described in P.O. Ruling R97-1/7. Supplement at 6.

Nevertheless, with the submission of the table of relative mark-ups on August 15, it appears that the Postal Service finally has accorded participants with notice of the impact of the changes in cost attribution methodology it is proposing in this case. Under these circumstances, and in recognition that this is the first case in which the revised language of rule 54(a) is applicable, I will reconsider P.O. Ruling R97-1/7.³

² Separate and distinct from these library references is the extent to which the Postal Service may have to explain the impact of corrections or other revisions to its case. Changes in its projections of revenues, costs, or volumes should be reflected in revisions to testimony, and may necessitate responses to written inquiries from the Commission or the parties, or even recalling witnesses.

³ My decision in this matter is influenced by my impression of the Postal Service's conduct of this case. Notwithstanding its submission of a request for reconsideration, the Service filed a completed table of relative mark-ups on the due date. Both this pleading, and a number of the objections interposed to specific discovery requests, have exhibited a tone which

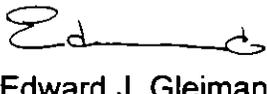
The Service estimates it will need three person-days to comply with P.O. Ruling R97-1/7. This effort is not unreasonable. To ease the scheduling of the personnel need to perform these tasks I will allow an additional 10 days, until September 4, 1997, to complete this work. If the Service is unable to overcome the difficulties it has encountered in making corrections, it may provide a written description of its efforts to apply the correct methodologies.

Hopefully, controversies of this nature will not be repeated in future cases. The Postal Service will be expected to comply with rule 54(a), and to submit with its requests in future cases, a satisfactory representation of base year and test year costs prepared using the cost attribution methodologies used by the Commission to develop the most recent rates approved in an omnibus rate case. In the past, the Commission has always responded to those, including the Postal Service, that have sought clarification of its workpapers. With advance knowledge of the obligation of rule 54(a), there will be no reason for the Service to have difficulty meeting this requirement in a timely fashion. Furthermore, the table of relative mark-ups, while not specifically required by the actual language of rule 54(a), would be a very helpful indication of the effect of variations from established attribution methodologies. As stated in Order No. 1176, the purpose of rule 54(a) is to have the Postal Service "separately identify the impact that its proposed changes in rates and its proposed changes in attribution principles would have on cost coverages." 62 FR 30242. The Postal Service is strongly urged to include such a table with future rate and classification requests.

reflects an effort to conduct this case in a cooperative, rather than adversarial, manner. This attitude should facilitate the expeditious handling of subsequent phases of this case. See, Tr. 1/41-42.

RULING

The Motion of the United States Postal Service for Reconsideration of Parts of Presiding Officer's Ruling No. R97-1/7, filed August 15, 1997, and the Motion of the United States Postal Service for Reconsideration of Additional Part of Presiding Officer's Ruling No. R97-1/7, filed August 20, 1997, are granted to the extent that the Postal Service will have until September 4, 1997, to comply with P. O. Ruling R97-1/7.


Edward J. Gleiman
Presiding Officer

